

Business Situation

Preliminary Estimates for the First Quarter of 2003

ACCORDING to the “preliminary” estimates of the national income and product accounts (NIPAs), U.S. economic growth was modest in the first quarter of 2003 but somewhat higher than had been reported in last month’s “advance” estimates.

- Real gross domestic product (GDP) increased 1.9 percent, according to the preliminary estimate, up from 1.6 percent in the advance estimate (table 1 and chart 1). In the fourth quarter of 2002, real GDP increased 1.4 percent.¹ Since the fourth quarter of 2001, growth has averaged 2.7 percent.

1. Quarterly estimates in the NIPAs are expressed at seasonally adjusted annual rates, unless otherwise specified. Quarter-to-quarter dollar changes are differences between these published estimates. Percent changes are calculated from unrounded data and annualized. “Real” estimates are in chained (1996) dollars, and price indexes are chain-type measures.

Table 1. Real Gross Domestic Product, Real Gross Domestic Purchases, and Real Final Sales to Domestic Purchasers

[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter				
	Level	Change from preceding quarter								
	2003	2002				2003	2002			2003
	I	II	III	IV	I	II	III	IV	I	
Gross domestic product	9,562.9	29.2	93.2	32.6	44.7	1.3	4.0	1.4	1.9	
Less: Exports of goods and services	1,057.9	34.9	12.2	-16.1	-3.7	14.3	4.6	-5.8	-1.4	
Plus: Imports of goods and services	1,564.8	75.8	12.8	28.1	-29.0	22.2	3.3	7.4	-7.1	
Equals: Gross domestic purchases	10,028.7	62.6	93.9	70.8	23.2	2.6	3.9	2.9	0.9	
Less: Change in private inventories	13.2	33.8	13.9	7.0	-12.6	.....	.....	.....	.....
Equals: Final sales to domestic purchasers	10,004.6	31.6	80.1	64.0	34.5	1.3	3.3	2.6	1.4	
Personal consumption expenditures	6,671.6	28.6	67.5	28.0	33.7	1.8	4.2	1.7	2.0	
Durable goods	1,006.0	4.8	51.7	-21.8	-4.6	2.0	22.8	-8.2	-1.8	
Nondurable goods	1,980.3	-0.5	4.9	24.2	30.3	-0.1	1.0	5.1	6.4	
Services	3,713.8	24.0	20.8	20.0	6.8	2.7	2.3	2.2	0.7	
Private fixed investment.....	1,587.7	-3.8	-1.0	16.9	-0.8	-1.0	-0.3	4.4	-0.2	
Nonresidential	1,170.8	-7.3	-2.4	6.6	-14.5	-2.4	-0.8	2.3	-4.8	
Structures	212.7	-11.5	-13.5	-5.6	0.1	-17.6	-21.4	-9.9	0.4	
Equipment and software	976.0	7.7	15.8	14.9	-16.1	3.3	6.7	6.2	-6.3	
Residential	406.4	2.5	1.0	8.8	10.5	2.7	1.1	9.4	11.0	
Government consumption expenditures and gross investment	1,736.2	6.0	12.3	19.4	1.2	1.4	2.9	4.6	0.3	
Federal	632.8	10.9	6.4	16.3	1.4	7.5	4.3	11.0	0.9	
National defense	409.6	7.3	6.7	10.7	-3.6	7.8	6.9	11.0	-3.4	
Nondefense	223.2	3.6	-0.2	5.6	4.9	6.9	-0.3	11.1	9.1	
State and local	1,103.8	-4.6	5.9	3.4	-0.2	-1.7	2.2	1.2	-0.1	
Addendum: Final sales of domestic product	9,539.1	-1.5	79.3	25.9	56.0	-0.1	3.4	1.1	2.4	

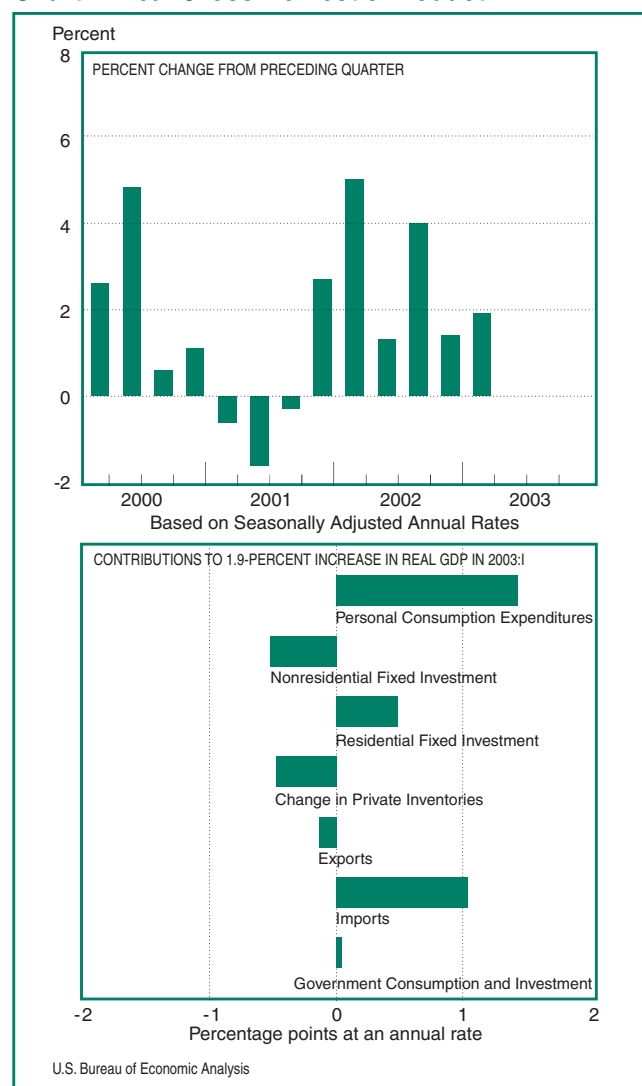
NOTE. Chained (1996) dollar series are calculated as the product of the chain-type quantity index and the 1996 current-dollar value of the corresponding series, divided by 100. Because the formula for the chain-type quantity indexes uses weights of more than one period, the corresponding chained-dollar estimates usually are not additive. Chained (1996) dollar levels and residuals, which measure the extent of nonadditivity in each table, are shown in NIPA tables 1.2, 1.4, and 1.6. Percent changes are calculated from unrounded data. Percent changes in major aggregates are shown in NIPA table S.1. (See “Selected NIPA Tables,” which begins on page D-2 in this issue.)

- Gross domestic purchases increased 0.9 percent in the first quarter, according to the preliminary estimate, up from 0.7 percent in the advance estimate. In the fourth quarter, gross domestic purchases increased 2.9 percent.

These revisions are mainly attributable to revised estimates of consumer spending. In the preliminary estimates, consumer spending increased 2.0 percent; in

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Chart 1. Real Gross Domestic Product



the advance estimate, it had increased 1.4 percent.² (The source data underlying the revisions are discussed in the section "Revisions.")

In most other respects, the general picture presented in the preliminary estimates is quite similar to that in the advance estimates. In both, consumer spending and residential investment contributed substantially to first-quarter growth. In addition, both the advance and preliminary estimates show that nonresidential fixed investment decreased, inventory accumulation slowed, and government spending posted a small increase. Moreover, both estimates show that the price index for gross domestic purchases rose 3.6 percent after rising 1.8 percent; most of the step-up reflected a jump in energy prices.

According to the preliminary estimates,

- Consumer spending contributed 1.44 percentage points to first-quarter growth, and residential investment contributed 0.49 percentage point; each had contributed somewhat less in the fourth quarter (table 2).
- Nonresidential fixed investment and inventory investment each subtracted about half a percentage point from first-quarter growth after contributing about a fourth of a percentage point in the fourth quarter.

2. In this article, "consumer spending" is shorthand for the NIPA series "personal consumption expenditures." Also, "government spending" is shorthand for "government consumption expenditures and gross investment," and "inventory investment" is shorthand for "change in private inventories."

Table 2. Contributions to Percent Change in Real Gross Domestic Product

[Seasonally adjusted at annual rates]

	2002			2003
	II	III	IV	I
Percent change at annual rate:				
Gross domestic product	1.3	4.0	1.4	1.9
Percentage points at annual rates:				
Personal consumption expenditures	1.22	2.93	1.19	1.44
Durable goods	0.16	1.74	-0.72	-0.15
Nondurable goods	-0.02	0.22	1.01	1.27
Services	1.08	0.97	0.90	0.31
Gross private domestic investment	1.16	0.55	0.93	-0.51
Fixed investment	-0.15	-0.03	0.65	-0.03
Nonresidential	-0.27	-0.08	0.24	-0.52
Structures	-0.53	-0.62	-0.25	0.01
Equipment and software	0.26	0.53	0.49	-0.53
Residential	0.12	0.05	0.41	0.49
Change in private inventories	1.31	0.58	0.28	-0.48
Net exports of goods and services	-1.40	-0.01	-1.59	0.91
Exports	1.29	0.45	-0.59	-0.13
Goods	0.99	0.28	-0.82	0.01
Services	0.30	0.17	0.23	-0.14
Imports	-2.69	-0.47	-1.00	1.04
Goods	-2.74	-0.40	-0.71	0.89
Services	0.05	-0.07	-0.30	0.15
Government consumption expenditures and gross investment	0.27	0.56	0.85	0.05
Federal	0.47	0.29	0.70	0.06
National defense	0.32	0.29	0.46	-0.15
Nondefense	0.16	-0.01	0.25	0.21
State and local	-0.21	0.27	0.15	-0.01

NOTE. More detailed contributions to percent change in real gross domestic product are shown in NIPA table 8.2. Contributions to percent change in major components of real gross domestic product are shown in tables 8.3 through 8.6.

- The small increase in government spending was accounted for by the Federal Government; spending by state and local governments changed little.
- Imports, which are subtracted in the calculation of GDP, and exports both decreased. The decrease in imports was considerably larger than that in exports.

The preliminary estimates for the first quarter also show the following:

- An upturn in the production of goods and a step-up in the construction of structures were partly offset by a slowdown in the production of services (table 3).
- Real motor vehicle output decreased much less than in the fourth quarter. Excluding motor vehicle output, GDP increased 2.1 percent after increasing 1.9 percent.
- Final sales of domestic product—GDP less inventory investment—increased 2.4 percent after increasing 1.1 percent.
- Real disposable personal income (DPI) increased 2.3 percent, about the same as in the fourth quarter and almost twice as much as the advance estimate. The revision mainly reflected a downward revision to personal tax and nontax payments. Taxes, in turn, were revised down on the basis of data for Federal nonwithheld income taxes through April and projections for the remainder of the calendar year.
- Personal saving as a percentage of current-dollar DPI edged up to 3.9 percent. (The national saving rate, which is measured as gross saving as a percentage of gross national product and which is first available at the time of the preliminary estimate, decreased from 14.6 percent to 14.2 percent.)

Table 3. Real Gross Domestic Product by Type of Product

[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter				
	Level	Change from preceding quarter								
	2003	2002			2003	2002			2003	
	I	II	III	IV	I	II	III	IV	I	
Gross domestic product	9,562.9	29.2	93.2	32.6	44.7	1.3	4.0	1.4	1.9	
Goods	3,766.8	3.6	80.4	-14.7	26.7	0.4	9.0	-1.6	2.9	
Services	5,024.8	42.3	30.9	38.2	10.2	3.5	2.5	3.1	0.8	
Structures	777.8	-17.2	-10.9	4.8	9.0	-8.4	-5.5	2.5	4.8	
Addenda:										
Motor vehicle output	359.7	6.7	28.5	-13.3	-2.7	8.1	37.1	-13.4	-3.0	
Gross domestic product less motor vehicle output	9,204.5	23.3	67.9	44.0	46.7	1.0	3.0	1.9	2.1	
Final sales of computers .....	.....	.....	.....	.....	.....	13.1	78.5	26.7	18.0
Gross domestic product less final sales of computers .....	.....	.....	.....	.....	.....	1.2	3.6	1.2	1.8

NOTE. See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals most items are shown in NIPA table 1.4. Detail on motor vehicle output is shown in NIPA table 8.9B.

Personal Consumption Expenditures

Real personal consumption expenditures increased a little more than in the fourth quarter (table 4 and chart 2).

Table 4. Real Personal Consumption Expenditures

[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter				
	Level	Change from preceding quarter				Percent change from preceding quarter				
		2003	2002				2002			
	I	II	III	IV	I	II	III	IV	I	
Personal consumption expenditures	6,671.6	28.6	67.5	28.0	33.7	1.8	4.2	1.7	2.0	
Durable goods.....	1,006.0	4.8	51.7	-21.8	-4.6	2.0	22.8	-8.2	-1.8	
Motor vehicles and parts	375.4	-0.9	38.5	-24.8	-7.4	-1.0	48.8	-22.2	-7.5	
Of which:										
New autos.....	104.2	-1.0	7.8	-13.6	4.2	-3.7	32.9	-39.8	17.7	
New light trucks	136.7	-3.1	26.9	-13.5	-5.4	-9.2	114.1	-30.6	-14.4	
Furniture and household equipment	447.6	7.0	6.2	6.1	0.1	6.7	5.8	5.7	0.1	
Other ¹	191.5	-0.1	2.9	1.1	3.4	-0.1	6.4	2.3	7.5	
Nondurable goods.....	1,980.3	-0.5	4.9	24.2	30.3	-0.1	1.0	5.1	6.4	
Food.....	930.1	-2.2	-1.3	12.8	19.4	-0.9	-0.6	5.8	8.8	
Clothing and shoes.....	365.1	-0.7	0.2	6.5	3.3	-0.9	0.3	7.5	3.7	
Gasoline, fuel oil, and other energy goods	159.3	-0.7	1.0	1.4	0.4	-1.9	2.7	3.6	1.0	
Other ²	528.9	3.0	4.9	3.9	7.0	2.3	3.9	3.1	5.4	
Services.....	3,713.8	24.0	20.8	20.0	6.8	2.7	2.3	2.2	0.7	
Housing.....	890.0	4.5	3.6	3.7	4.2	2.1	1.7	1.7	1.9	
Household operation.....	388.4	1.6	1.8	5.2	-1.5	1.7	1.9	5.5	-1.5	
Electricity and gas	140.7	0.1	2.1	7.1	-2.1	0.5	6.3	22.8	-5.8	
Other household operation	247.7	1.5	-0.4	-2.1	0.7	2.3	-0.6	-3.4	1.3	
Transportation.....	250.1	-0.6	-0.5	0.3	0.0	-1.0	-0.8	0.5	0.1	
Medical care.....	1,001.3	11.3	9.7	7.6	9.3	4.8	4.1	3.1	3.8	
Recreation.....	238.6	1.5	0.0	3.2	-1.7	2.5	0.1	5.4	-2.8	
Other ³	943.7	5.7	6.0	0.5	-3.8	2.4	2.6	0.2	-1.6	

1. Includes jewelry and watches, ophthalmic products and orthopedic equipment, books and maps, bicycles and motorcycles, guns and sporting equipment, photographic equipment, boats, and pleasure aircraft.

2. Includes tobacco, toilet articles, drug preparations and sundries, stationery and writing supplies, toys, film, flowers, cleaning preparations and paper products, semidurable house furnishings, and magazines and newspapers.

3. Includes personal care, personal business, education and research, religious and welfare activities, and net foreign travel.

NOTE. See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals are shown in NIPA tables 2.3 and 8.9B (motor vehicles). Percent changes in major aggregates are shown in NIPA table S.1.

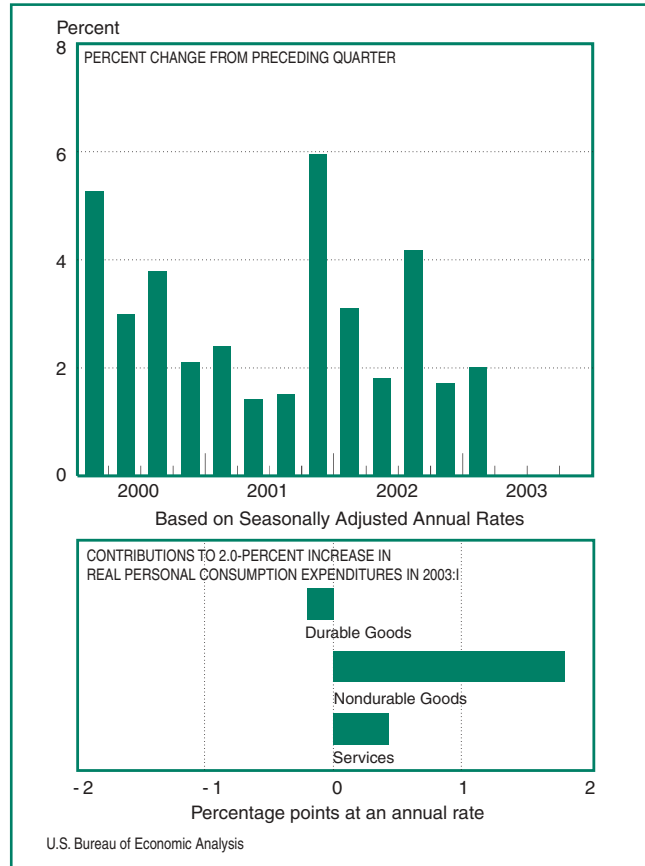
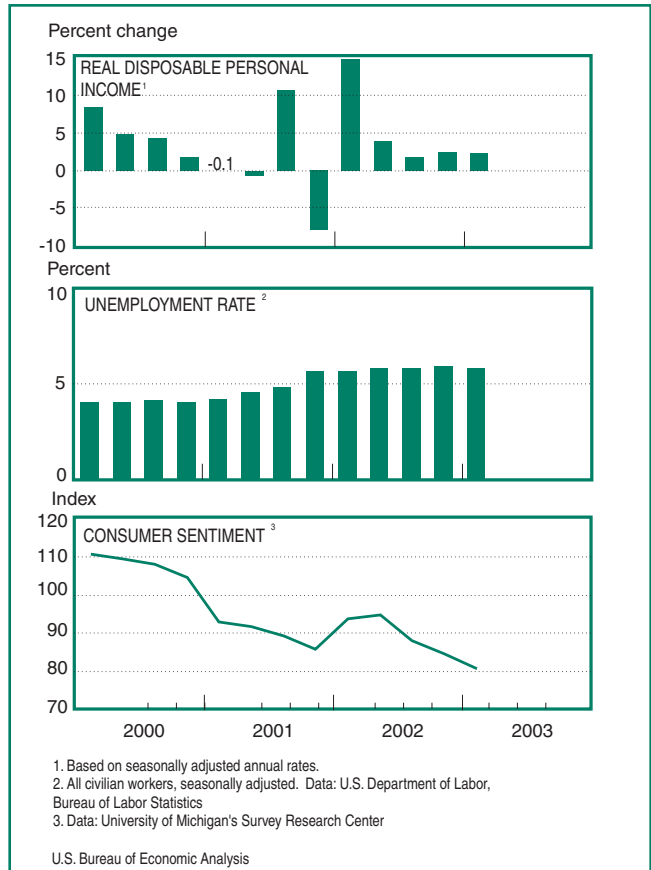
Purchases of durable goods decreased less than in the fourth quarter, reflecting the pattern set by motor vehicles. (New autos turned up, and new trucks decreased less.) "Other" durable goods, which include items such as pleasure boats and motorcycles, increased more than in the fourth quarter. Furniture and household equipment changed little after increasing, as purchases of computer equipment slowed.

A step-up in purchases of nondurable goods was mainly accounted for by food, but "other" goods (such as toiletries and drugs) also contributed. In contrast, clothing and energy goods increased less than in the fourth quarter.

Purchases of services slowed, mainly reflecting downturns in electricity and gas, recreation, and "other services" (including foreign travel by U.S. residents).

Factors frequently considered in the analysis of consumer spending were not encouraging in the first quarter (chart 3). The Index of Consumer Sentiment (from by the University of Michigan's Survey Research Center) dropped, the unemployment rate remained high, and real DPI posted a third consecutive subpar increase of 2.3 percent.³

3. Real DPI increased at an average annual rate of 3.1 percent from the trough in real GDP in the first quarter of 1991 to the peak in real GDP in the fourth quarter of 2000.

Chart 2. Real Personal Consumption Expenditures**Chart 3. Selected Factors Affecting Consumer Spending**

Private Fixed Investment

Real private fixed investment decreased in the first quarter after increasing in the fourth quarter for the first time in 2 years (table 5 and chart 4). The decrease was more than accounted for by nonresidential equipment and software; nonresidential structures changed little, and residential structures increased.

Nonresidential. Transportation equipment primarily accounted for the decrease in equipment and software; trucks and aircraft posted sizable drops. "Other" equipment (such as construction machinery and tractors) and industrial equipment decreased moderately. In contrast, information processing equipment in-

creased; computers and peripheral equipment accounted for about half of the increase.

In structures, an increase in oil-well drilling was offset by decreases in the construction of utilities, nonresidential buildings, and "other" structures. The decrease in utilities was the sixth in the past seven quarters. Among nonresidential buildings, decreases in school and hospital construction more than offset a small increase in commercial buildings (the first increase in more than 2 years).

Chart 4. Real Private Fixed Investment

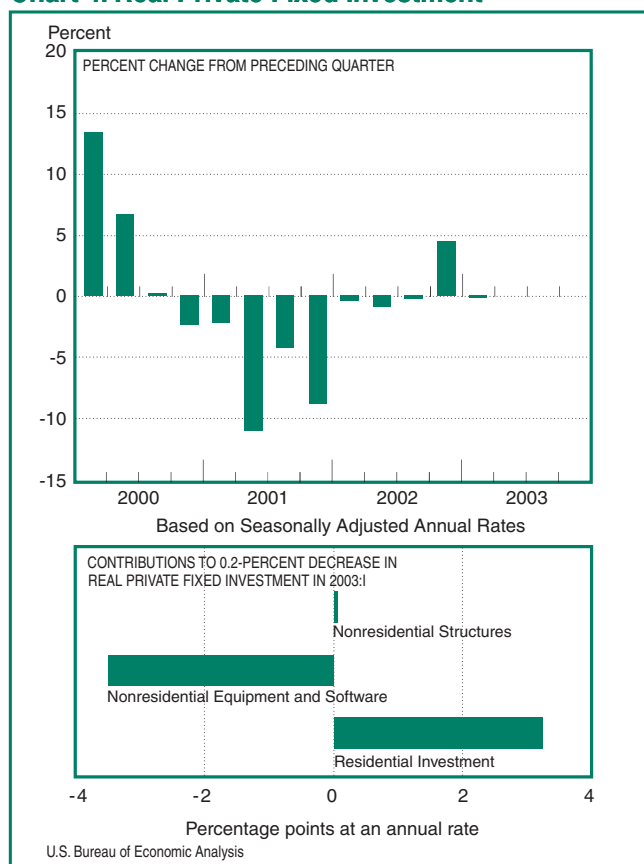


Table 5. Real Private Fixed Investment

[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter				
	Level	Change from preceding quarter								
		2003	2002			2003	2002			
	I	II	III	IV	I	II	III	IV	I	
Private fixed investment.....	1,587.7	-3.8	-1.0	16.9	-0.8	-1.0	-0.3	4.4	-0.2	
Nonresidential.....	1,170.8	-7.3	-2.4	6.6	-14.5	-2.4	-0.8	2.3	-4.8	
Structures.....	212.7	-11.5	-13.5	-5.6	0.1	-17.6	-21.4	-9.9	0.4	
Nonresidential buildings, including farm.....	137.4	-8.9	-9.1	-1.3	-0.4	-20.8	-22.2	-3.7	-1.4	
Utilities.....	43.9	-2.4	-2.8	-1.0	-0.7	-18.2	-20.9	-8.8	-5.9	
Mining exploration, shafts, and wells.....	28.4	0.1	-0.4	-3.4	1.9	1.0	-4.4	-38.3	30.8	
Other structures.....	4.4	0.0	-1.3	-0.4	-0.2	-3.1	-60.5	-25.4	-19.9	
Equipment and software.....	976.0	7.7	15.8	14.9	-16.1	3.3	6.7	6.2	-6.3	
Information processing equipment and software.....	590.1	16.6	18.2	4.5	10.4	12.9	13.7	3.2	7.4	
Computers and peripheral equipment ¹	318.5	.....	.....	.....	.....	15.4	44.1	7.7	21.6	
Software ¹	189.5	.....	.....	.....	.....	12.4	11.7	1.8	-1.5	
Other ¹	165.5	.....	.....	.....	.....	12.2	2.8	2.6	12.4	
Industrial equipment.....	144.4	-2.7	2.3	-2.0	-1.5	-7.1	6.4	-5.4	-4.0	
Transportation equipment.....	135.0	-8.1	-1.7	9.7	-16.4	-19.7	-4.6	30.2	-36.8	
Of which: Motor vehicles.....	116.6	5.9	7.2	2.5	-14.8	21.9	26.1	7.8	-37.9	
Other.....	139.5	5.5	0.2	2.0	-2.8	17.5	0.5	5.9	-7.6	
Residential.....	406.4	2.5	1.0	8.8	10.5	2.7	1.1	9.4	11.0	
Structures.....	396.4	2.5	1.0	8.7	10.3	2.7	1.1	9.5	11.1	
Single-family.....	214.8	1.2	1.4	6.7	8.3	2.5	2.7	14.3	17.1	
Multifamily.....	27.6	-0.2	-0.6	-1.1	2.5	-2.6	-8.3	-16.3	46.6	
Other structures ²	153.7	1.4	0.3	3.1	-0.7	3.9	0.8	8.3	-1.8	
Equipment.....	9.9	0.0	0.0	0.1	0.1	3.1	-0.3	3.0	5.2	

1. "Computers and peripheral equipment" include new items only; "software" excludes software "embedded," or bundled, in computers and other equipment. Because of the large price changes that characterize the components of information processing equipment, the nonadditivity of the chained-dollar estimates is substantial, and the relative importance of the components cannot be inferred on the basis of these estimates. Contributions may be taken directly from NIPA table 8.4.

2. Includes home improvements, new manufactured home sales, brokers' commissions on home sales, net purchases of used structures, and other residential structures (which consists primarily of dormitories and of fraternity and sorority houses).

NOTE: See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals are shown in NIPA tables 5.5 and 8.9B (motor vehicles). Percent changes in major aggregates are shown in NIPA table S.1.

In recent quarters, long-term interest rates have continued to drift downward, but other conditions that are frequently considered in the analysis of investment spending have been generally unfavorable (chart 5). The capacity utilization rate for manufacturing, mining, and utilities remains about 10 percent below the level reached in the expansion of the 1990s, and no clear trend characterizes the most recent quarters. Domestic corporations' profits from current production are also below the levels reached in the 1990s. The growth of real final sales of domestic product has aver-

aged 1.7 percent over the past four quarters, compared with a 3.4-percent average over the most recent expansion.

Residential. Real private residential investment increased 11.0 percent, somewhat more than in the fourth quarter (table 5 and chart 4). Single-family construction stepped up, and multifamily construction increased after decreasing. In contrast, "other" structures decreased after increasing for four consecutive quarters; the decrease reflected drops in manufactured homes and in brokers' commissions on home sales.

Chart 5. Selected Factors Affecting Nonresidential Investment



Inventory Investment

Real inventory investment decreased in the first quarter, as the pace of inventory accumulation slowed from \$25.8 billion to \$13.2 billion (table 6 and chart 6). The decrease followed four quarterly increases and reflected lower inventory investment in wholesale trade, in manufacturing, and in the construction, mining, and utilities group.

Wholesale trade inventories fell in the first quarter after rising in the fourth. Inventories of petroleum and petroleum products (including stocks at petroleum bulk stations and terminals) turned down, and inventories of motor vehicles increased less than in the fourth quarter. In contrast, inventories of computer equipment and software turned up.

In manufacturing, inventories also decreased after increasing. Inventories of computer manufacturers decreased after no change, and inventories of aircraft manufacturers were flat after increasing. These developments were partly offset by upswings in the inventories of chemicals, food, and plastics manufacturers.

Inventories in the construction, mining, and utilities group decreased more than in the fourth quarter.

Inventories held by utilities were mainly responsible.

Retail trade inventories increased more than in the fourth quarter. Inventory accumulation by motor vehicle dealers stepped up, and inventories of "other" retail stores increased after decreasing. These changes were partly offset by the slower accumulation of inventories of general merchandise stores.

Farm inventories increased in the first quarter after decreasing in the fourth. Crop inventories turned up, and livestock inventories increased in the first quarter after little change in the fourth.

The ratio of real private nonfarm inventories to final sales of goods and structures decreased to 3.61 from 3.64 (see NIPA table 5.13B). A ratio that includes all final sales of domestic businesses decreased to 2.01 from 2.02.⁴ Both ratios have been trending down since the mid-1970s.

4. Using the ratio that includes all final sales of domestic businesses in the denominator implies that the production of services results in a demand for inventories that is similar to that generated in the production of goods and structures. In contrast, using the "goods and structures" ratio implies that the production of services does not generate demand for inventories. Both implications are extreme. Production of some services may require substantial inventories, while production of other services may not.

Table 6. Real Change in Private Inventories, by Industry

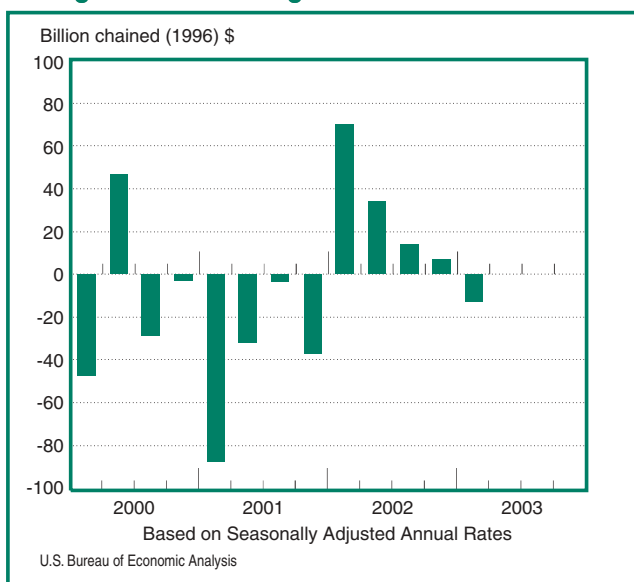
[Billions of chained (1996) dollars; seasonally adjusted at annual rates]

	Level					Change from preceding quarter				
	2002				2003	2002				2003
	I	II	III	IV	I	II	III	IV	I	
Change in private inventories	-28.9	4.9	18.8	25.8	13.2	33.8	13.9	7.0	-12.6	
Farm	6.4	0.8	-2.2	-0.8	1.4	-5.6	-3.0	1.4	2.2	
Construction, mining, and utilities.....	1.6	-1.0	-2.3	-1.1	-6.5	-2.6	-1.3	1.2	-5.4	
Manufacturing.....	-31.9	-14.1	-2.6	2.8	-4.1	17.8	11.5	5.4	-6.9	
Durable goods industries.....	-25.9	-15.0	-10.3	5.5	-7.4	10.9	4.7	15.8	-12.9	
Nondurable goods industries	-6.0	0.8	7.4	-2.5	3.0	6.8	6.6	-9.9	5.5	
Wholesale trade	-19.8	-8.7	7.9	7.0	-1.9	11.1	16.6	-0.9	-8.9	
Durable goods industries.....	-17.0	-7.7	6.5	3.8	2.9	9.3	14.2	-2.7	-0.9	
Nondurable goods industries	-3.2	-1.3	1.6	3.1	-4.2	1.9	2.9	1.5	-7.3	
Retail trade	13.8	22.0	15.5	15.2	23.3	8.2	-6.5	-0.3	8.1	
Of which: Motor vehicle dealers.....	14.0	15.6	4.7	7.8	16.2	1.6	-10.9	3.1	8.4	
Other industries ¹	0.0	5.0	2.3	2.5	1.5	5.0	-2.7	0.2	-1.0	
Addenda:										
Motor vehicles	10.2	20.1	6.3	11.7	22.9	9.9	-13.8	5.4	11.2	
Autos	7.8	10.8	6.0	6.0	-5.0	3.0	-4.8	0.0	-11.0	
Trucks	2.8	8.7	0.9	5.3	21.6	5.9	-7.8	4.4	16.3	

1. Includes inventories held by establishments in the following industries: Transportation; communication; finance, insurance, and real estate; and services.

NOTE: See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals are shown in NIPA tables 5.11B and 8.9B (motor vehicles).

Chart 6. Real Private Inventory Investment: Change from Preceding Quarter



Exports and Imports

Real exports of goods and services decreased less than in the fourth quarter. Real imports of goods and services decreased after increasing (table 7 and charts 7 and 8).

Exports of goods changed little after dropping sharply. Exports of nonautomotive capital goods decreased less than in the fourth quarter. Auto exports increased after decreasing. Exports of “foods, feeds, and beverages” and of industrial supplies and materials stepped up.

Table 7. Real Exports and Imports of Goods and Services

[Seasonally adjusted at annual rates]

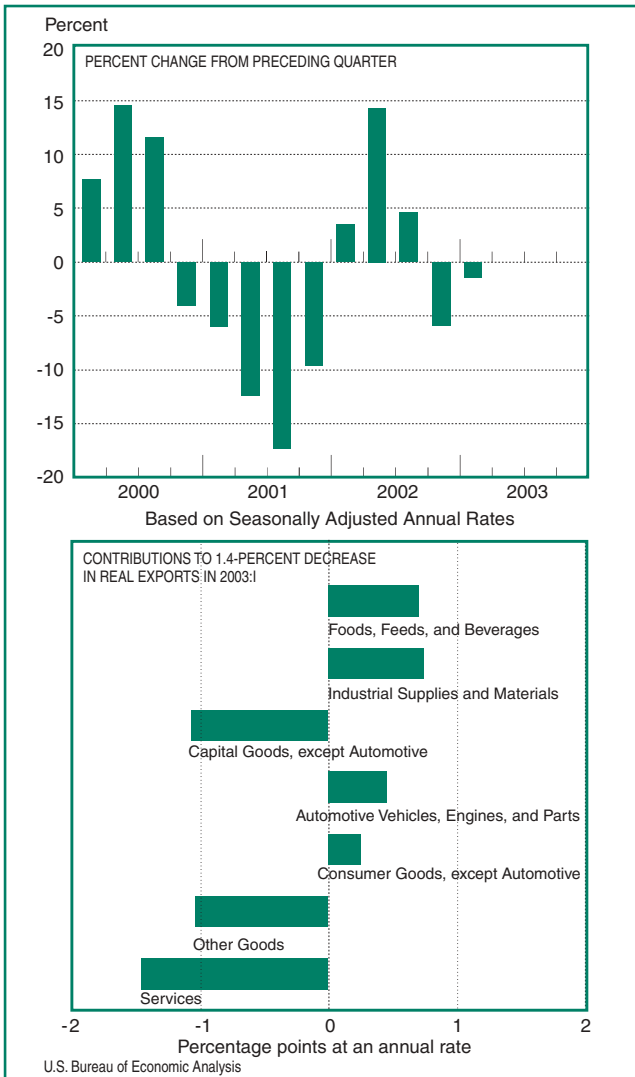
	Billions of chained (1996) dollars					Percent change from preceding quarter				
	Level	Change from preceding quarter								
		2003	2002			2003	2002			2003
	I	II	III	IV	I	II	III	IV	I	
Exports of goods and services	1,057.9	34.9	12.2	-16.1	-3.7	14.3	4.6	-5.8	-1.4	
Exports of goods ¹	750.5	27.7	7.7	-23.2	0.2	15.9	4.1	-11.5	0.1	
Foods, feeds, and beverages.....	61.8	-2.1	-1.9	0.2	2.2	-12.1	-12.0	1.6	15.2	
Industrial supplies and materials.....	165.9	7.3	-2.7	0.8	2.0	19.5	-6.4	2.1	4.9	
Capital goods, except automotive.....	315.5	11.7	9.1	-18.2	-3.1	15.6	11.6	-19.9	-3.8	
Automotive vehicles, engines, and parts.....	75.8	6.4	1.8	-5.2	1.1	40.5	9.6	-23.4	6.2	
Consumer goods, except automotive.....	86.3	2.2	1.5	-0.4	0.7	11.2	7.2	-2.0	3.2	
Other.....	44.3	1.3	-0.2	-0.7	-2.7	11.5	-1.5	-5.8	-21.1	
Exports of services ¹	306.4	7.5	4.3	6.0	-3.6	10.7	5.9	8.0	-4.6	
Imports of goods and services	1,564.8	75.8	12.8	28.1	-29.0	22.2	3.3	7.4	-7.1	
Imports of goods ¹	1,335.1	79.2	11.1	20.5	-25.7	27.9	3.4	6.2	-7.3	
Foods, feeds, and beverages.....	57.5	1.4	0.4	0.7	1.8	10.5	3.5	4.7	13.8	
Industrial supplies and materials, except petroleum and products...	166.6	4.3	4.0	2.8	-5.3	11.1	9.9	6.7	-11.6	
Petroleum and products.....	87.2	6.3	-3.1	4.7	-3.0	34.5	-13.3	24.1	-12.7	
Capital goods, except automotive.....	397.1	16.1	-3.3	2.7	-0.5	17.9	-3.2	2.7	-0.5	
Automotive vehicles, engines, and parts.....	199.5	16.5	2.1	-2.5	-3.9	40.4	4.0	-4.8	-7.3	
Consumer goods, except automotive.....	346.2	24.0	8.0	8.8	3.0	35.8	10.1	11.0	3.5	
Other.....	73.8	7.6	2.6	1.5	-14.3	46.3	12.6	7.3	-50.7	
Imports of services ¹	229.5	-1.2	1.7	7.0	-3.5	-2.1	3.1	13.0	-5.9	

1. Exports and imports of certain goods, primarily military equipment purchased and sold by the Federal Government, are included in services.

NOTE: See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals are shown in NIPA table 4.4. Percent changes in major aggregates are shown in NIPA table S.1.

Imports of goods decreased 7.3 percent after increasing 6.2 percent. Most categories of imports contributed to the downturn. Imports of “other” goods, of industrial supplies and materials, of petroleum

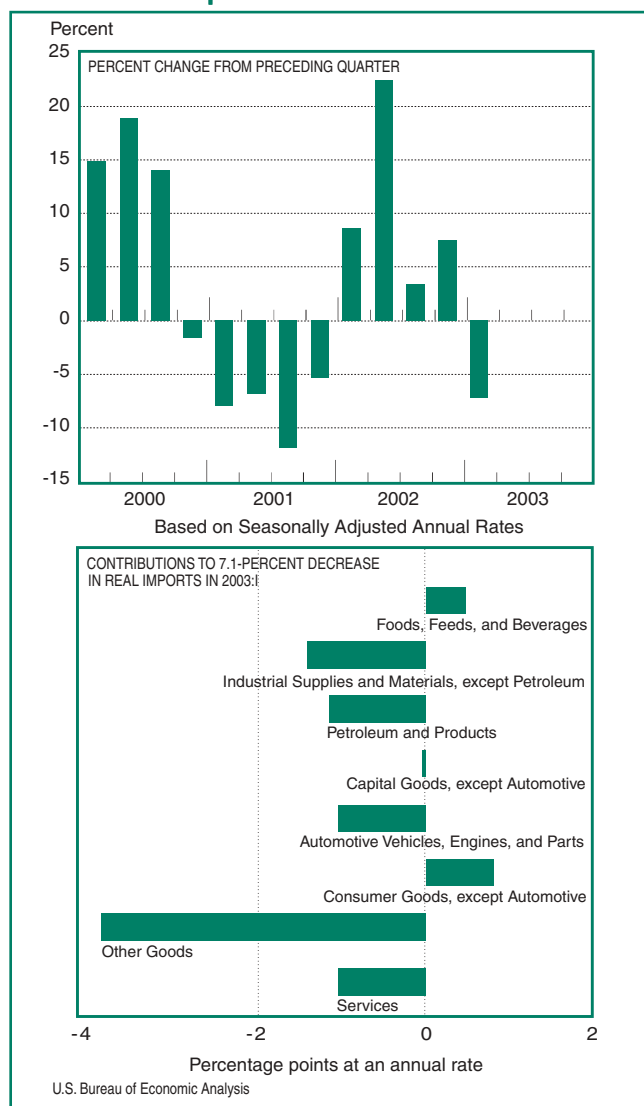
Chart 7. Real Exports



products, and of nonautomotive capital goods (especially aircraft) turned down, and imports of nonautomotive consumer goods increased less than in the fourth quarter.

Exports and imports of services both turned down. For each, travel and passenger fares were mainly responsible.

Chart 8. Real Imports



Government Spending

Government spending increased 0.3 percent in the first quarter after increasing 4.6 percent in the fourth (table 8 and chart 9). Spending by the Federal Government slowed, and spending by state and local governments decreased a little after increasing.

Spending on national defense decreased 3.4 percent after increasing 11.0 percent. The decrease was accounted for by services other than compensation. As was explained in last month's "Business Situation," expenditures related to Operation Iraqi Freedom (which began on March 19, 2003) are reflected in several components of defense spending, including employee compensation, transportation of material, and travel of persons. However, the use of munitions during the conflict had no direct effect on first-quarter GDP growth, because spending on munitions is included in GDP when these items are produced and delivered to the military, not when they are used.

Federal nondefense spending increased almost as

much as in the fourth quarter. In both quarters, services were the main contributor to the increase.

Both consumption expenditures and gross investment contributed to the downturn in state and local government spending. Gross investment decreased in the first quarter after changing little in the fourth, as investment in structures turned down. Consumption expenditures increased less than in the fourth quarter, reflecting a slowdown in compensation of employees.

Chart 9. Real Government Consumption and Investment

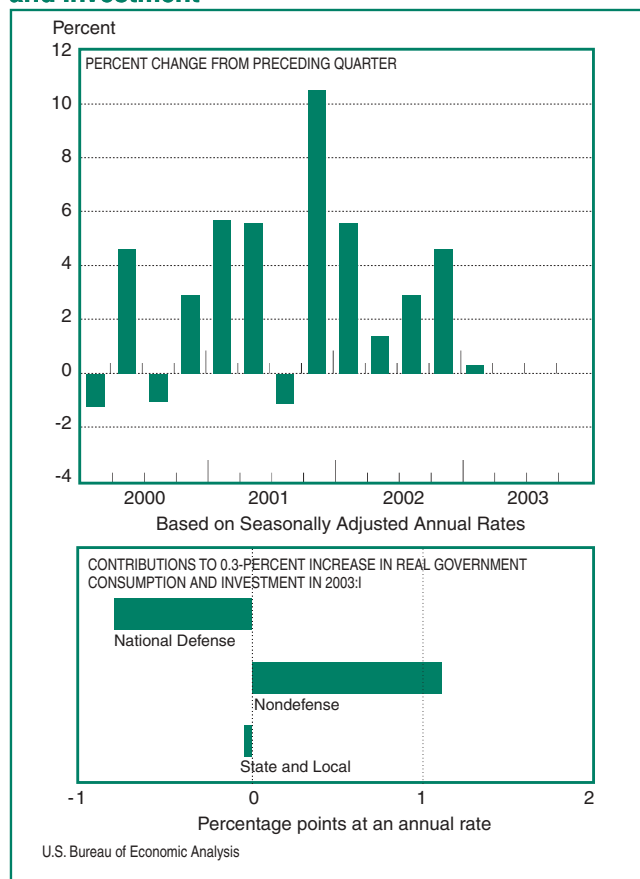


Table 8. Real Government Consumption Expenditures and Gross Investment

[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter				
	Level	Change from preceding quarter								
	2003	2002				2003	2002			2003
	I	II	III	IV	I	II	III	IV	I	
Government consumption expenditures and gross investment ¹	1,736.2	6.0	12.3	19.4	1.2	1.4	2.9	4.6	0.3	
Federal	632.8	10.9	6.4	16.3	1.4	7.5	4.3	11.0	0.9	
National defense	409.6	7.3	6.7	10.7	-3.6	7.8	6.9	11.0	-3.4	
Consumption expenditures	345.4	7.2	4.1	11.4	-4.0	9.1	5.1	14.1	-4.5	
Gross investment	64.6	0.0	2.8	-1.1	0.7	-0.4	19.6	-6.8	4.1	
Nondefense	223.2	3.6	-0.2	5.6	4.9	6.9	-0.3	11.1	9.1	
Consumption expenditures	177.3	2.2	1.4	4.6	4.8	5.3	3.4	11.6	11.6	
Gross investment	45.9	1.6	-1.9	0.9	-0.1	14.0	-15.1	8.7	-1.3	
State and local	1,103.8	-4.6	5.9	3.4	-0.2	-1.7	2.2	1.2	-0.1	
Consumption expenditures	888.2	3.5	3.6	3.3	1.9	1.6	1.7	1.5	0.9	
Gross investment	215.5	-8.4	2.3	0.1	-2.2	-14.3	4.4	0.2	-4.0	

1. Gross government investment consists of general government and government enterprise expenditures for fixed assets; inventory investment is included in government consumption expenditures.

NOTE: See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals are shown in NIPA table 3.8. Percent changes in major aggregates are shown in NIPA table S.1.

Prices

Inflation stepped up in the first quarter. The price index for gross domestic products, which measures prices of goods and services purchased by U.S. residents, increased 3.6 percent after increasing 1.8 percent (table 9). About three-fourths of the step-up was accounted for by energy prices; excluding food and energy, prices increased 2.0 percent after increasing 1.5 percent (chart 10). In addition, a Federal pay raise for military and civilian personnel added about 0.3 percentage point to the first-quarter increase.⁵

Prices of goods and services purchased by consum-

5. In the NIPAs, an increase in the rate of Federal employee compensation is treated as an increase in the price of employee services purchased by the Federal Government.

Table 9. Price Indexes

[Percent change at annual rates; based on seasonally adjusted index numbers (1996=100)]

	2002			2003
	II	III	IV	I
Gross domestic product	1.2	1.0	1.8	2.5
Less: Exports of goods and services	3.0	3.5	0.9	3.9
Plus: Imports of goods and services.....	11.1	4.4	0.9	11.8
Equals: Gross domestic purchases	2.3	1.2	1.8	3.6
Less: Change in private inventories .....	.....	.....	.....	.....
Equals: Final sales to domestic purchasers	2.3	1.3	1.8	3.7
Personal consumption expenditures	2.7	1.7	1.8	2.7
Durable goods	-2.9	-1.9	-2.2	-3.7
Nondurable goods	4.6	0.6	1.2	4.6
Services	3.0	3.0	3.0	3.1
Private fixed investment	-0.2	-0.9	1.8	2.5
Nonresidential	-1.4	-1.3	0.4	0.6
Structures	0.7	0.4	2.3	4.0
Equipment and software	-2.1	-1.9	-0.2	-0.3
Residential	2.6	0	5.0	6.9
Government consumption expenditures and gross investment	2.8	1.4	1.6	8.2
Federal	2.3	1.3	0.3	10.2
National defense	2.0	1.5	1.2	9.5
Nondefense	2.9	1.0	-1.2	11.4
State and local	3.1	1.5	2.2	7.1
Addenda:				
Gross domestic purchases:				
Food	0.4	0.7	1.8	1.7
Energy	29.9	3.8	8.8	52.9
Less food and energy	1.5	1.2	1.5	2.0
Personal consumption expenditures:				
Food	0.5	0.9	1.8	1.7
Energy goods and services ¹	29.6	3.3	7.6	46.4
Less food and energy	1.9	1.8	1.5	0.8

1. Consists of gasoline, fuel oil, and other energy goods and of electricity and gas.

NOTE: Percent changes in major aggregates are shown in NIPA table 8.1. Index numbers are shown in tables 7.1, 7.2, and 7.4.

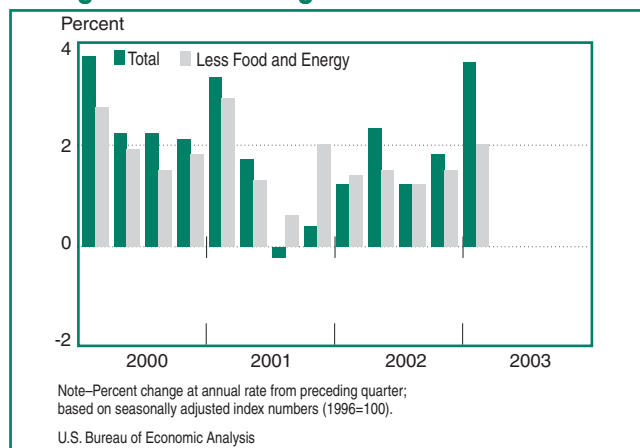
ers increased 2.7 percent, almost a percentage point more than in the fourth quarter. The step-up was more than accounted for by the acceleration in energy prices. Food prices increased about the same as in the fourth quarter.

Prices paid by government rose 8.2 percent—the biggest increase since 1984—after increasing 1.6 percent. The jump in energy prices boosted prices at both the Federal level and at the state and local level.

Prices of private nonresidential fixed investment posted a second modest quarterly increase after five consecutive decreases. As in the fourth quarter, an increase in the price of structures more than offset a small decrease in the price of equipment and software.

The GDP price index, which measures the prices paid for goods and services produced in the United States, increased 2.5 percent after increasing 1.8 percent. This index increased less than the price index for gross domestic purchases because export prices increased less than import prices. The rise in import prices was dominated by soaring petroleum prices.

Chart 10. Gross Domestic Purchases Prices: Change From Preceding Quarter



Revisions

The preliminary estimate of a 1.9-percent increase in real GDP in the first quarter is 0.3 percentage point higher than the advance estimate released last month (table 10). In the past 20 years, the average revision, without regard to sign, from the advance estimate to the preliminary estimate was 0.5 percentage point.

An upward revision to consumer spending on non-durable goods raised GDP growth by an additional 0.43 percentage point; the revision largely reflected the incorporation of revised Census Bureau data on retail sales for March and revised data for earlier months based on information from the Census Bureau's 2001 Annual Retail Trade Survey. The upward revision also reflected the incorporation of monthly survey data on gasoline and fuel oil consumption for February from the Energy Information Administration.

An upward revision to exports raised GDP growth by an additional 0.18 percentage point. The revision mainly reflected the incorporation of newly available Census Bureau data for March. A nearly offsetting revision to imports also reflected new data for March.

Nonresidential investment in equipment and software was revised down (lowering GDP growth by an additional 0.16 percentage point), reflecting the incorporation of the newly available data on exports and imports, revised Census Bureau data on manufacturers' shipments for March, and newly available data on truck registrations for March.

Table 10. Revisions to Change in Real Gross Domestic Product and Prices, First Quarter 2003

[Seasonally adjusted at annual rates]

	Percent change from preceding quarter		Preliminary estimate minus advance estimate	
	Advance estimate	Preliminary estimate	Percentage points	Billions of chained (1996) dollars
Gross domestic product	1.6	1.9	0.3	6.9
Less: Exports	-3.2	-1.4	1.8	4.9
Goods	-2.5	0.1	2.6	5.0
Services	-4.6	-4.6	0.0	0.1
Plus: Imports	-7.9	-7.1	0.8	3.5
Goods	-8.2	-7.3	0.9	3.0
Services	-6.7	-5.9	0.8	0.5
Equals: Gross domestic purchases	0.7	0.9	0.2	5.7
Less: Change in private inventories .....	.....	.....	.....	0.4
Equals: Final sales to domestic purchasers	1.2	1.4	0.2	5.8
Personal consumption expenditures	1.4	2.0	0.6	11.1
Durable goods	-1.1	-1.8	-0.7	-1.7
Nondurable goods	4.2	6.4	2.2	10.4
Services	0.5	0.7	0.2	2.0
Private fixed investment	0.5	-0.2	-0.7	-2.9
Nonresidential	-4.2	-4.8	-0.6	-1.9
Structures	-3.4	0.4	3.8	2.0
Equipment and software	-4.4	-6.3	-1.9	-4.9
Residential	12.0	11.0	-1.0	-0.9
Government consumption expenditures and gross investment	0.9	0.3	-0.6	-2.6
Federal	2.6	0.9	-1.7	-2.7
National defense	-1.5	-3.4	-1.9	-2.0
Nondefense	10.5	9.1	-1.4	-0.7
State and local	-0.1	-0.1	0.0	0.0
Addenda:				
Final sales of domestic product	2.1	2.4	0.3	7.0
Gross domestic purchases price index	3.6	3.6	0.0	.....
GDP price index	2.5	2.5	0.0	.....

NOTE: The preliminary estimates for the first quarter of 2003 incorporate the following revised or additional major source data that were not available when the advance estimates were prepared.

Personal consumption expenditures: Revised retail sales for October 2002 through March 2003 that include the incorporation (on a "best-change" basis) of data that reflect the 2001 Annual Retail Trade Survey, monthly survey data on gasoline and fuel oil usage for February, average unit value for domestic new autos for March (revised), and consumers' share of new-car and new-truck purchases for March.

Nonresidential fixed investment: Construction put-in-place for January and February (revised) and March, manufacturers' shipments of machinery and equipment for February and March (revised), and manufacturers' shipments of complete civilian aircraft for February (revised) and March.

Residential fixed investment: Construction put-in-place for January and February (revised) and March.

Change in private inventories: Manufacturing and wholesale trade inventories for February (revised) and March, revised retail trade inventories for December through February that include the incorporation (on a "best-change" basis) of data that reflect the 2001 Annual Retail Trade Survey, and March.

Exports and imports of goods and services: Exports and imports of goods for February (revised) and March.

Government consumption expenditures and gross investment: Monthly Treasury Statement detailed data for March and state and local government construction put-in-place for January and February (revised) and March.

Wages and salaries: Employment, average hourly earnings, and average weekly hours for February and March (revised).

GDP prices: Detailed merchandise export and import price indexes for January through March (revised), unit-value index for petroleum imports for February (revised) and March, and housing prices for the first quarter.

Corporate Profits

Profits from current production increased \$7.9 billion (1.0 percent at a quarterly rate) in the first quarter (table 11).⁶ In contrast, the after-tax measure of current-production profits decreased \$4.8 billion (0.8 percent). Both measures of current-production profits had increased in the fourth quarter.

Profits of domestic financial corporations increased \$11.0 billion (5.3 percent). The increase was mainly accounted for by "other" financial corporations (which includes real estate investment trusts, federally sponsored credit agencies, and securities and commodities

6. Profits from current production is estimated as the sum of profits before tax, the inventory valuation adjustment, and the capital consumption adjustment; it is shown in NIPA tables 1.9, 1.14, 1.16, and 6.16C (see "Selected NIPA Tables," which begins on page D-2) as corporate profits with inventory valuation and capital consumption adjustments.

Percent changes in profits are shown at quarterly, not annual, rates.

Table 11. Corporate Profits
[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter				
	Level	Change from preceding quarter								
	2003	2002				2002				
	I	II	III	IV	I	II	III	IV	I	
Profits from current production	804.0	-12.6	-14.0	25.1	7.9	-1.6	-1.8	3.2	1.0	
Domestic industries.....	698.4	4.3	-15.0	27.1	16.4	0.7	-2.2	4.1	2.4	
Financial.....	218.6	-2.5	-3.4	0.3	11.0	-1.2	-1.6	0.1	5.3	
Nonfinancial.....	479.9	6.9	-11.7	26.8	5.5	1.5	-2.5	6.0	1.1	
Rest of the world.....	105.6	-16.9	1.0	-2.0	-8.5	-12.8	0.9	-1.8	-7.4	
Receipts (inflows).....	190.7	12.0	12.5	1.4	3.4	7.4	7.2	0.8	1.8	
Payments (outflows).....	85.1	28.9	11.4	3.6	11.8	98.3	19.6	5.0	16.2	
IVA.....	-28.5	-7.6	-9.4	6.6	-20.0	.....	.....	.....	.....
CCAdj.....	113.0	-23.5	-15.2	-7.9	3.3	.....	.....	.....	.....
Profits before tax.....	719.5	18.5	10.6	26.4	24.6	2.9	1.6	3.9	3.5	
Profits tax liability.....	235.1	11.3	1.0	7.7	12.7	5.6	0.5	3.6	5.7	
Profits after tax.....	484.4	7.3	9.5	18.7	11.9	1.7	2.1	4.1	2.5	
Profits from current production less tax liability	568.9	-23.9	-15.0	17.4	-4.8	-4.0	-2.6	3.1	-0.8	
Cash flow from current production.....	957.3	-12.6	-12.0	14.0	-11.4	-1.3	-1.2	1.5	-1.2	
Dollars										
Unit price, costs, and profits of nonfinancial corporations:										
Unit price.....	1.039	-0.001	-0.001	0.002	0.002	.....	.....	.....	.....
Unit labor cost.....	0.682	-0.002	-0.001	0	0.003	.....	.....	.....	.....
Unit nonlabor cost.....	0.269	0.001	0.002	-0.001	-0.001	.....	.....	.....	.....
Unit profits from current production.....	0.089	0.001	-0.003	0.004	0.001	.....	.....	.....	.....

NOTE: Levels of these and other profits series are shown in NIPA tables 1.14, 1.16, 6.16C, and 7.15.

IVA Inventory valuation adjustment

CCAdj Capital consumption adjustment

brokers) and by commercial banks.

Profits of domestic nonfinancial corporations increased \$5.5 billion (1.1 percent), as output and profits per unit rose.⁷

Profits from the rest of the world decreased \$8.5 billion, as payments by domestic affiliates to their foreign parents increased more than receipts by domestic parents from foreign affiliates.⁸

Cash flow from current production, a profits-related measure of internally generated funds available for investment, decreased \$11.4 billion.⁹ The ratio of cash flow to nonresidential fixed investment, an indicator of the extent to which the current level of investment could be financed by internally generated funds, was 86.6 percent, little changed from the fourth quarter. The ratio has hovered between 86.0 percent and 86.9 percent for five consecutive quarters. (During the expansion of the 1990s, the ratio averaged 82.2 percent.)

Profits before and after tax. Profits before tax (PBT) increased \$24.6 billion in the first quarter, more than three times the increase in current-production profits. The difference between the two measures mainly reflects a decrease in the inventory valuation adjustment.¹⁰

Profits after tax (PBT less profits tax liability) increased 2.5 percent in the first quarter after increasing 4.1 percent in the fourth.

7. "Output" here is the gross product of nonfinancial corporations. It measures the contribution, or value added, of these businesses to the Nation's output, and it is measured as the sum of incomes generated by these businesses.

8. Profits from the rest of the world is calculated as (1) receipts by U.S. residents of earnings from their foreign affiliates plus dividends received by U.S. residents from unaffiliated foreign corporations minus (2) payments by U.S. affiliates of earnings to their foreign parents plus dividends paid by U.S. corporations to unaffiliated foreign residents. These estimates include capital consumption adjustments (but not inventory valuation adjustments) and are derived from BEA's international transactions accounts.

9. Cash flow from current production is undistributed profits with inventory valuation and capital consumption adjustments plus the consumption of fixed capital.

10. Profits before tax is based on inventory and depreciation practices used in tax accounting, whereas the current-production measure—which excludes nonoperating items, such as special charges and capital gains and losses—is based on depreciation of fixed assets and inventory withdrawals valued at current cost.

Government Sector

The combined current deficit of the Federal Government and of state and local governments increased \$34.7 billion, to \$333.0 billion, in the first quarter after increasing \$33.1 billion in the fourth (table 12).¹¹ The Federal current deficit increased in both quarters. The state and local current deficit increased in the first quarter after decreasing in the fourth.

Federal

The Federal Government current deficit increased \$18.4 billion in the first quarter after increasing \$37.2 billion in the fourth. Current receipts accelerated, while current expenditures decelerated.

Current receipts. Federal current receipts increased \$8.8 billion in the first quarter after increasing \$5.6 billion in the fourth. The acceleration was more than accounted for by accelerations in contributions for social insurance and corporate profits tax accruals. In contrast, personal tax and nontax receipts decreased more in the first quarter than in the fourth.

Contributions for social insurance increased \$13.9 billion after increasing \$6.1 billion. The acceleration was accounted for by a step-up in contributions for social security (old-age, survivors, disability, and health insurance trust funds), which increased \$10.7 billion after increasing \$6.1 billion. The step-up was accounted for by an increase in the social security taxable wage base that boosted contributions by \$2.4 billion. Contributions to state unemployment insurance programs accelerated, as increases in the rate and in the wage base boosted these contributions by \$3.4 billion.

Corporate profits tax accruals accelerated, increasing \$10.8 billion after increasing \$6.4 billion. The acceleration reflected the pickup in domestic corporate profits before tax.

In contrast, personal tax and nontax receipts decreased \$15.8 billion after decreasing \$6.0 billion. The larger decrease was more than accounted for by personal income taxes. Within personal income taxes, nonwithheld income taxes decreased more in the first quarter, declining \$21.5 billion after a \$3.6 billion decrease. Withheld income taxes turned up, increasing \$5.6 billion after a \$2.3 billion decrease.

Current expenditures. Current expenditures increased \$27.2 billion in the first quarter after increasing \$42.8 billion in the fourth. The deceleration was mostly accounted for by a downturn in grants-in-aid to state and local governments. Net interest paid decreased more than in the fourth quarter, "subsidies less

current surplus of government enterprises" turned down, and consumption expenditures decelerated. In contrast, transfer payments accelerated.

Grants-in-aid to state and local governments decreased \$2.8 billion after increasing \$10.8 billion. Grants for welfare and social services, for state Medicaid programs, for housing and community services, and for health and hospitals (including payments to

Table 12. Government Sector Current Receipts and Expenditures
[Billions of dollars, seasonally adjusted at annual rates]

	Level	Change from preceding quarter			
	2003	2002			2003
	I	II	III	IV	I
Current receipts.....	2910.4	11.0	-7.3	17.9	23.1
Current expenditures.....	3243.4	50.1	17.2	51.0	57.8
Current surplus or deficit (-).....	-333.0	-39.1	-24.5	-33.1	-34.7
Social insurance funds.....	56.1	-14.3	-1.6	1.9	6.2
Other.....	-389.1	-24.8	-22.9	-35.0	-40.9
Federal					
Current receipts.....	1878.5	-1.0	-19.6	5.6	8.8
Personal tax and nontax receipts.....	809.5	-18.2	-25.3	-6.0	-15.8
Corporate profits tax accruals.....	198.3	9.7	0.9	6.4	10.8
Indirect business tax and nontax accruals.....	111.2	1.8	2.2	-0.9	-0.3
Contributions for social insurance.....	759.3	5.6	2.6	6.1	13.9
Current expenditures.....	2144.6	48.8	-4.7	42.8	27.2
Consumption expenditures.....	627.1	14.7	8.8	19.1	18.2
National defense.....	408.8	10.4	6.4	14.3	5.6
Nondefense.....	218.3	4.4	2.3	4.9	12.5
Transfer payments (net).....	971.4	10.7	6.5	14.4	22.9
To persons.....	950.7	22.9	7.4	9.6	16.7
To the rest of the world.....	20.8	-12.2	-0.9	4.8	6.3
Grants-in-aid to State and local governments.....	313.0	17.3	-4.6	10.8	-2.8
Net interest paid.....	193.5	6.4	-9.1	-3.7	-8.6
Subsidies less current surplus of government enterprises.....	40.9	-0.3	-6.4	2.2	-1.2
Subsidies.....	47.8	0.6	-0.5	1.3	1.5
Of which: Agricultural subsidies.....	23.5	0.1	-0.8	1.2	1.5
Less: Current surplus of government enterprises.....	6.9	1.0	5.7	-0.8	2.7
Less: Wage accruals less disbursements.....	1.4	0.0	0.0	0.0	1.4
Current surplus or deficit (-).....	-266.1	-49.8	-14.9	-37.2	-18.4
Social insurance funds.....	56.3	-14.4	-1.6	1.9	6.3
Other.....	-322.4	-35.4	-13.3	-39.1	-24.7
State and local					
Current receipts.....	1345.0	29.2	7.8	23.1	11.6
Personal tax and nontax receipts.....	275.9	3.3	2.4	3.7	4.5
Corporate profits tax accruals.....	36.8	1.5	0.2	1.2	1.9
Indirect business tax and nontax accruals.....	709.8	7.1	9.6	7.3	8.0
Contributions for social insurance.....	9.5	0.1	0.0	0.1	0.0
Federal grants-in-aid.....	313.0	17.3	-4.6	10.8	-2.8
Current expenditures.....	1411.9	18.5	17.4	19.0	27.9
Consumption expenditures.....	1072.8	12.9	9.0	10.5	22.7
Transfer payments to persons.....	354.2	7.3	8.0	10.8	4.7
Net interest paid.....	-1.9	-0.1	0.0	0.1	0.0
Less: Dividends received by government.....	0.5	0.1	0.0	0.0	0.0
Subsidies less current surplus of government enterprises.....	-12.7	-1.6	0.4	-2.4	0.5
Subsidies.....	0.3	-0.9	1.2	-2.1	0.7
Less: Current surplus of government enterprises.....	13.0	0.7	0.8	0.3	0.2
Less: Wage accruals less disbursements.....	0.0	0.0	0.0	0.0	0.0
Current surplus or deficit (-).....	-66.9	10.7	-9.6	4.1	-16.3
Social insurance funds.....	-0.1	0.1	0.0	0.0	0.0
Other.....	-66.8	10.7	-9.7	4.1	-16.3
Addendum:					
Net lending or net borrowing (-) ¹	-427.4	-35.7	-20.9	-36.5	-28.8
Federal.....	-281.1	-53.7	-10.5	-38.2	-9.3
State and local.....	-146.3	18.0	-10.4	1.7	-19.5

11. The combined current surplus or deficit of the Federal Government and state and local governments is the NIPA measure of net saving by government. Net saving equals gross saving less consumption of fixed capital. These estimates are shown in NIPA table 5.1.

1. "Net lending or borrowing" is conceptually similar to "net financial investment" in the flow-of-funds accounts prepared by the Board of Governors of the Federal Reserve System. The two measures differ primarily because government net lending or borrowing is estimated from data for transactions, whereas net financial investment is estimated from data for financial assets. There are also small conceptual differences, such as the classification of the Federal Government's railroad retirement and veterans life insurance programs.

States for children's health insurance programs) all turned down.

Net interest paid decreased \$8.6 billion after decreasing \$3.7 billion. Gross interest paid decreased \$8.3 billion after decreasing \$0.9 billion. Interest paid to the rest of the world decreased more than in the fourth quarter, decreasing \$5.3 billion after decreasing \$2.1 billion. Interest paid to persons and business turned down. Gross interest received decelerated, increasing \$0.1 billion after increasing \$2.9 billion.

"Subsidies less current surplus of government enterprises" turned down, decreasing \$1.2 billion after increasing \$2.2 billion. The downturn was mostly accounted for by an upturn in the "current surplus of government enterprises." The current surplus of the Postal Service turned up, increasing \$2.7 billion after decreasing \$0.8 billion; the upturn reflected the effects of the Postal Civil Service Retirement System Funding Reform Act of 2003, which decreased contributions to the civil service retirement fund.

Consumption expenditures increased \$18.2 billion after increasing \$19.1 billion. The slight deceleration was accounted for by a deceleration in defense consumption expenditures that was partly offset by an acceleration in nondefense consumption expenditures.

Defense consumption expenditures increased \$5.6 billion after increasing \$14.3 billion. The deceleration was more than accounted for by services. Within services, "other services" (which includes research and development, weapon support, installation support, and personnel support) turned down, decreasing \$6.3 billion after a \$17.2 billion increase. This downturn was partly offset by an upturn in compensation of employees, which increased \$11.3 billion after decreasing \$1.9 billion; the upturn was mostly accounted for by the January 2003 pay raise, which boosted compensation \$4.9 billion, and by the activation of an additional 163,000 military reservists. Transportation of materials and travel of persons both accelerated as a result of the costs associated with the war in Iraq. In contrast, nondurable goods turned up, increasing \$0.8 billion after a \$0.6 billion decrease. The upturn was more than accounted for by an upturn in petroleum products.

Nondefense consumption expenditures increased \$12.5 billion after increasing \$4.9 billion. The acceleration was more than accounted for by services. "Other services" (which includes research and development, utilities, transportation of materials, and travel of persons) accelerated, increasing \$6.2 billion after a \$0.6 billion increase. Compensation of employees increased \$6.0 billion after increasing \$3.4 billion; compensation was boosted \$2.8 billion by the January 2003 pay raise.

"Transfer payments (net)" increased \$22.9 billion

after a \$14.4 billion increase. Transfer payments to persons accelerated, increasing \$16.7 billion after increasing \$9.6 billion. The step-up mainly reflected a 1.4-percent cost-of-living adjustment that boosted benefits \$2.4 billion for social security (old-age, survivors, disability, and health insurance), veterans pensions, supplemental security income, and other programs. In addition, payments for the Earned Income and Child Tax Credits boosted transfer payments by \$3.9 billion. Transfer payments to the rest of the world accelerated, increasing \$6.3 billion after increasing \$4.8 billion. The acceleration reflected a payment of \$2.5 billion (\$10.0 billion at an annual rate) to Israel and Egypt for economic support; \$0.8 billion (\$3.2 billion at an annual rate) in economic support payments was disbursed in the fourth quarter.

State and local

The state and local government current deficit increased \$16.3 billion in the first quarter after decreasing \$4.1 billion in the fourth. Current expenditures accelerated, while current receipts decelerated.

Current receipts. State and local government current receipts increased \$11.6 billion in the first quarter after increasing \$23.1 billion in the fourth. The deceleration was more than accounted for by the downturn in Federal grants-in-aid. In contrast, personal tax and nontax receipts, corporate profits tax accruals, and indirect business tax and nontax accruals accelerated.

Personal tax and nontax receipts increased \$4.5 billion after increasing \$3.7 billion. Corporate profits tax accruals increased \$1.9 billion after increasing \$1.2 billion. Indirect business tax and nontax accruals increased \$8.0 billion after increasing \$7.3 billion; the acceleration was more than accounted for by sales taxes, which increased \$3.8 billion after increasing \$1.4 billion.

Current expenditures. Current expenditures increased \$27.9 billion in the first quarter after increasing \$19.0 billion in the fourth. Consumption expenditures accelerated, "subsidies less current surplus of government enterprises" turned up, and transfer payments to persons decelerated.

Consumption expenditures increased \$22.7 billion after increasing \$10.5 billion. The acceleration was mostly accounted for by nondurable goods, which increased \$13.4 billion after increasing \$3.7 billion. Within nondurable goods, petroleum products accelerated. Services also accelerated, increasing \$9.0 billion after increasing \$6.6 billion.

"Subsidies less current surplus of government enterprises" increased \$0.5 billion after decreasing \$2.4 billion. The upturn was accounted for by an upturn in

subsidies, which increased \$0.7 billion after decreasing \$2.1 billion, reflecting smaller reimbursements from electric power companies to California. (In the NIPA's, California's special purchases of electricity, net of receipts from commercial and residential users, are treated as subsidy payments.) In the fourth quarter, subsidies had turned down when California recovered subsidies paid in earlier periods.

Transfer payments to persons decelerated, increasing \$4.7 billion after a \$10.8 billion increase. The deceleration was mostly accounted for by Medicaid payments, which increased \$4.3 billion after increasing \$9.8 billion.

Net lending or net borrowing

"Net lending or net borrowing (-)" is an alternative measure of the government fiscal position. Net lending is the financing requirement of the government sector and is derived as the current surplus plus the con-

sumption of fixed capital and "capital transfers received (net)" less gross investment and net purchases of nonproduced assets.¹²

Net borrowing increased \$28.8 billion in the first quarter after increasing \$36.5 billion in the fourth. Federal Government net borrowing increased \$9.3 billion as a result of an increase in the current deficit that more than offset an increase in net capital transfers received. State and local government net borrowing increased \$19.5 billion as a result of an increase in the current deficit.

Government gross investment increased \$0.7 billion after increasing \$0.5 billion. Federal Government gross investment accelerated, while state and local gross investment turned down.

12. Net lending or net borrowing estimates are shown in NIPA tables 3.1-3.3.